

THE LEONARD LETTER

November 22, 2004

QUOTE OF THE WEEK

*"The deterioration of every government begins
with the decay of the principles on which it was founded."*

-- Charles-Louis De Secondat

(1689-1755) Baron de Montesquieu

Source: The Spirit of the Laws, 1748

UNDER THE DOME

When Race Counts

The dirty little secret behind the UC Regents' 1-12 vote last week against creating a single check box labeled "multiracial" on their admission forms is that having students check boxes for many separate races actually benefits UC in its game of claiming great diversity. Student applicants are now permitted (even encouraged) to check more than one box on the race/ethnicity section. Many students do because their heritage reflects our multiracial society. However, UC does not count all the check marks; instead it categorizes applicants using the one box that represents the race where UC is lacking in students. So if the student checks the boxes for black and Asian, UC will forever, for statistical purposes including government grants, call that person black because UC already has an abundance of Asian students. Ward Connerly is right. We are a multiracial society with proud blends of different heritages, and its only racists and UC administrators who still believe there are any pure blood, single race people.

Governor Being Set Up for Election Year Budget War

Elizabeth Hill, the state's Legislative Analyst, released the latest budget projections last week. This document confirms that last year's budget bought the Governor time, but did almost nothing to solve the state's ongoing fiscal problems. Stalling does have some virtue, given the financial circumstance we have been experiencing. As has been demonstrated, time is helpful when deficits occur during recessions. When economies rebound they have helped governments "grow" out of deficits. But while it is true that current revenues are outpacing what was expected this year by an estimated \$2.4 billion, Hill does not believe that the growth of the economy alone will solve the deep discrepancy between what the state collects and what it spends.

The good news for the Governor is that it appears he will be able to negotiate a balanced budget for 2005-06 with relative ease-- both because of the unexpected new revenues and the potential cash still available from the deficit bonds authorized last summer that have not yet been sold. These unsold bonds amount to around \$3.5 billion.

However, because this is merely painting over a structural deficit that is ongoing, Hill lays out a nightmare budget scenario for Schwarzenegger's final year of this term should the hard decisions be delayed until then. Hill estimates that the structural deficit-- the difference between revenues and expenditures in state spending-- could reach \$10 billion unless corrective action is taken before spring of 2006.

The question is, will the Governor choose to engage in a brutal battle over the hard choices this summer, or the next? Without the crisis atmosphere of last summer could he motivate the majority Democrats to cut new spending? In one scenario outlined by Hill, the legislature can simply halt the growth of Prop. 98 appropriations (dedicated funds to schools), sell the already approved deficit bonds, declare victory, and go home.

This points to the summer of 2006 as the big showdown. Having exhausted most one-time fixes (the few things remaining, like selling surplus state property, consolidating state departments would help but will not solve the problem) the Governor's hand will be forced. He will either need to raise taxes or slash some of the major entitlement programs that make up the lion's share of the budget. And he will have to do it in an election atmosphere where Democrats will not want to cooperate so they can ascribe to him all the blame and none of the credit for the hard choices. My prediction is that he will make a stand for fiscal responsibility in 2005.

*****State Would Profit Only By Selling Land*****

The idea of doing something with the state's portfolio of inactive properties is already very popular. This was demonstrated by the easy passage of Proposition 60A that mandated proceeds from surplus sales would go towards paying off \$15 billion worth of deficit bonds. But State Treasurer Phil Angelides thinks it wrong to simply sell off the land. He argues that California's experience is that it is more profitable in the long run to hang onto land rather than selling it. So he is proposing a non-profit state agency that would manage the land for profit, specifically leasing out urban office space the state owns.

I do not agree with this proposal. In my experience government does not know how to make a profit and it's wrong for government to compete with the private sector. His idea of a state-run Real Estate Investment Trust would expand government intrusion into local economies with the likelihood that the state would lose money. I oppose this for two reasons. First, the people would realize a greater benefit through complete privatization because after the land is converted to private hands, future transactions would benefit both buyers and sellers, rather than the state benefiting exclusively. Thus, the multiplication of wealth throughout society would be greater.

Second, I do not regard the state's fiscal imbalance as being a revenue problem -- it is a spending problem. If the state had restrained itself during the dot-com era by increasing state spending to, say, the level of population growth, we would be enjoying a healthy surplus right now. So what is needed is not a new revenue stream for future spending but a chunk of cash now to pay off the state's growing debt load. I agree with the Governor's Performance Review that selling surplus properties would best be done to generate one-time money for one-time expenditures, like paying off revenue bonds, increasing water storage, or building better freeways.

ECONOMIC PERSPECTIVE

*****Voters and Taxes*****

The presidential race and the many controversial ballot measures stole the post-election coverage and analysis. However, around California voters considered at least 174 tax proposals and approved 34% of them.

Twenty-two California counties were seeking sales taxes increases; 14 of those failed. All eight of those that passed were continuations of existing taxes and most of them were for transportation.

Voters remain picky about taxes. They are inclined to support existing sales taxes that are devoted to specific projects. Cal-Tax President Larry McCarthy says, "When local agencies have demonstrated solid management and are asking for renewal of a tax that is sunseting, voters' response is generally positive." They also like schools; voters approved 60 of 66 local school bond measures for \$3.6 billion. And they are inclined to tax other people: 13 of 25 hotel/motel room taxes passed. But outside of that, they are leery of passing new sales taxes, approving parcel taxes or voting for non-school local bonds.

MISCELLANY

*****Citizenship Test 20*****

The first question in today's citizenship test should give each of us pause to reflect on the many, many benefits of being a citizen of this great land.

86. Name one benefit of being citizen of the United States.

87. What is the most important right granted to U.S. citizens?

88. What is the United States Capitol?

89. What is the White House?

90. Where is the White House located?

BOE AND LEGISLATIVE DATES

November 25, 2004 --- Thanksgiving

November 26, 2004 --- Thanksgiving holiday

November 30, 2004 --- Close of property tax assessment appeals filings in most California counties.

December 6, 2004 --- Legislature Convenes/Swearing-In of Members.

December 13, 2004 --- The electors in each State meet to select the President and Vice President of the United States.

December 14-15, 2004 --- BoE meets in Sacramento.

December 22, 2004 --- The President of the Senate, the Archivist of the United States, and other designated Federal and State officials must have the electoral votes in hand.

December 25, 2004 --- Christmas Day

January 6, 2005 --- The Congress meets in joint session to count the electoral votes (unless Congress passes a law to change the date).

January 10, 2005 --- Governor's proposed budget due.

January 20, 2005 --- Presidential Inauguration.

January 25-26, 2005 --- BoE meets in Sacramento.

NOTABLE DATES/ HISTORY

November 22, 1963 --- President John F. Kennedy was assassinated during an appearance in Dallas. Vice President Lyndon B. Johnson was sworn in as President.

November 23, 1765 --- People of Frederick County, MD refused to pay England's Stamp tax.

November 23, 1945 --- WWII rationing of most foods, such as butter and meat, ended.

November 24, 1871 --- The National Rifle Association was organized in New York City.

November 24, 1896 --- First U.S. absentee voting law was enacted by Vermont.

November 25, 1973 --- Congress reduced the maximum speed limit to 55 miles per hour, in an effort to save lives and energy.

November 26, 1789 --- First national Thanksgiving proclaimed by George Washington. (Abraham Lincoln revived the practice in 1863.)

November 27, 1870 --- The New York Times dubbed baseball as “The National Game.”

November 27, 1973 --- Gerald R. Ford was confirmed as Vice President by the Senate, filling the position vacated by the resignation of Spiro T. Agnew.

November 27, 1978 --- San Francisco Mayor George Moscone and City Supervisor Harvey Milk were murdered at City Hall by former supervisor Dan White.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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